

## Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-10 EUR-12 EA-09 NEA-10 ISO-00

ERDA-07 AID-05 CEA-01 CIAE-00 CIEP-02 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-15 SAM-01 OES-05 SP-02 SS-15 STR-04

TRSE-00 PA-02 PRS-01 FEA-01 /144 W

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P 242256Z OCT 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 0667

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

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AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS CARACAS 11141

EO 11652 NA

TAGS: ENRG VE

SUBJ: NEW VENEZUELAN OIL TAXES - PRELIMINARY ANALYSIS

REF: CARACAS 11049

1. BEGIN SUMMARY. ALL CRUDE OIL TAX EXPORT VALUES (TEVS)  
WERE INCREASED AND THE GOV ESTABLISHED A NEW CRUDE CLASSIFI-  
CATION IN THE TAX TABLE (31.5 API GRAVITY) WHICH WILL HENCE-  
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FORTH BE CONSIDERED THE VENEZUELAN REFERENCE CRUDE. THE TEV

FOR THIS CRUDE WAS INCREASED \$1.48, NETTING THE GOV \$1.03 AT THE 70 PERCENT TAX RATE. OTHER MAJOR CHANGES WERE A 75 US CENT INCREASE FOR HIGH SULFUR NO 6 FUEL OIL, AND A REDUCTION FOR LOW SULFUR FUEL OIL SUFFICIENT TO WARRANT STARTUP OF DESULFURIZATION UNITS IN VENEZUELAN REFINERIES AND MAKE THIS PRODUCT COMPETITIVE ON THE US EAST COAST AGAIN.  
END SUMMARY.

2. WE HAVE OBTAINED AN ADVANCE COPY OF THE NEW VENEZUELAN OIL TAX RESOLUTION AND DISCUSSED ITS IMPLICATION WITH SEVERAL US OIL COMPANY SOURCES. PUBLICATION OF THE OFFICIAL GAZETTE HAS BEEN DELAYED BY A TYPOGRAPHER'S HOLIDAY, AND WE HAVE BEEN PROMISED AN ENGLISH TRANSLATION OF THE TAX RESOLUTION BY OCTOBER 28.

3. THE TEVS FOR ALL VENEZUELAN CRUDELS HAVE BEEN INCREASED. FOR THE FIRST TIME, A TAX EXPORT VALUE WAS ESTABLISHED FOR 31.5 API GRAVITY CRUDE. THIS WILL BE CONSIDERED THE VENEZUELAN REFERENCE CRUDE. OIL COMPANY SOURCES STATE THE GOV INTENTION WAS TO NET OVER ONE DOLLAR PER BARREL AT THE REFERENCE PRICE. THIS WAS ACCOMPLISHED BY INCREASING THE NEW MARKER CRUDE TEV BY \$1.48 (WHICH INVOLVED EXTRAPOLATING THE OLD TEV FROM 31 AND 32 API TEVS). THE OIL COMPANY 70 PERCENT TAX RATE THUS NETS THE GOV \$1.04.

4. MOST REFINERY PRODUCT VALUES CHANGES WERE EFFECTED BY CHANGING THE GENERAL ADJUSTMENT FACTOR RATHER THAN ADJUSTING THE TEVS. THERE APPEARS TO BE NO CHANGES IN AVIATION GASES. MOTOR GASOLINES WERE INCREASED BY A GENERAL ADJUSTMENT FACTOR INCREASE, AS WELL AS MIXING AGENTS, DISTILLATES, HIGH SULFUR FUEL OIL, LUBRICANTS, ASPHALT, COMPONENTS AND GAS OILS. LOW SULFUR FUEL OIL IS THE SIGNIFICANT, AND SEEMINGLY ONLY REDUCTION.

5. HIGH SULFUR NO 6 FUEL OIL (2.0 SULFUR CONTENT BY WEIGHT AND HEAVIER), ACCORDING TO OUR OIL COMPANY SOURCE, HAS INCREASED FROM \$10.84 TO \$11.59, OR 75 CENTS. THIS PRODUCT CATEGORY IS EXPECTED TO ACCOUNT FOR 55.6 PERCENT OF 4TH QUARTER 1975 REFINERY EXPORTS, ACCORDING TO THE GOV ANNOUNCEMENT REPORTED IN OUR REF.  
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6. THE OTHER CRITICAL CHANGE, WHICH THE OIL COMPANIES HAVE BEEN SEEKING SINCE JAN 1975, WAS A REDUCTION IN THE TEVS OF LOW SULFUR FUEL OIL. WHILE THE ACTUAL TEVS WERE INCREASED, THE GENERAL ADJUSTMENT FACTOR WAS LOWERED SUFFICIENTLY TO EFFECT AN OVERALL REDUCTION. IN THE EXAMPLE OF FUEL OIL HAVING A SULFUR CONTENT OF 0.51 TO 0.60 BY WEIGHT, THE REDUCTION WAS FROM \$15.15 TO \$14.22,

OR 93 CENTS. OUR OIL COMPANY SOURCE STATED THAT THIS WAS  
LESS THAN THE ONE DOLLAR REDUCTION COMPANIES WANTED, BUT  
ENOUGH TO MAKE THIS PRODUCT COMPETITIVE IN THE MARKET AND  
WARRANT REACTIVATING OIL DESULFURIZATION UNITS IN THE  
VENEZUELAN REFINERIES.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, CUSTOMS DUTIES, REPORTS, PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 24 OCT 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition History:** n/a  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 CARACAS 11049  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** buchant0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 03 NOV 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03 NOV 2003 by ThomasVJ>; APPROVED <02 FEB 2004 by buchant0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** NEW VENEZUELAN OIL TAXES - PRELIMINARY ANALYSIS  
**TAGS:** ENRG, ETRD, VE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006